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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Retirement Changes

FROM:

Harry E. Fitzwater
Deputy Director for Administration
7D 24 Hqs

EXTENSION

NO.

DDA 85-0197/6

DATE

14 February 1985

TO: (Officer designation, room number, and building)

DATE

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OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. Executive Director
7D 55 Hqs

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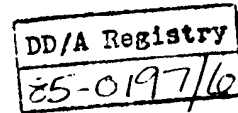
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Jim,
This is a very thoughtful paper that Ben provided to me. I thought you might be interested in reading it.
Have sent a copy to D/SOP.

14 FEB 1985



S E C R E T

13 February 1985

Harry:

I appreciated the chance the other day to participate in the discussion on retirement. I've been thinking about it since and decided to send you these additional comments and observations. I'm sure there is nothing new here, but maybe another perspective might be of help.

Kathy was able to find in your files the attached copy of a paper I wrote in Feb '83, when the retirement reforms were first announced. I wrote other papers but they are probably buried in O/P. Although the attached is dated, e.g., the section on Social Security coverage, I believe that much of the discussion on the impact of the retirement reforms is still valid.

As I began my effort in early '83--within the Agency and with the Committee staffs--I developed and had agreement from the top to some basic guidelines for our pursuit of ways to avoid the full impact of the proposed reforms. They are inherent in the attached paper, but let me state them here more directly and expand on them:

1. First, the Agency would defend the current retirement equities for all employees and not take the easy way and speak to CIARDS only. To do otherwise would have a crippling effect on the Agency's management of about 80% of its employees. Moreover, isolating concern to CIARDS only would seriously weaken what I believe is the Agency's strongest argument in seeking relief--that the Agency needs a retirement system that allows early retirement for all. Early here means the current ages for voluntary retirement; under CIARDS, age 50; Civil Service, age 55.

2. Next, we would argue for relief from the proposed reforms not in behalf of our employees but, rather, in behalf of the Agency and its ability to fulfill its mission. Thus, we would talk about what the Agency needed in order to do its vital mission. In turn, this would make it easier to distinguish our mission from other agencies. By stressing our mission and not our people, we could avoid the rebuttal that would say our people aren't all that different than elsewhere. Sure the point is a subtle one, but it is a real one; when we argue about not being able to recruit needed talent and then retaining them, we can do so in the context of not being able properly to collect and analyze intelligence; when we talk about the problems of portability, we can talk about the

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risks to the national security of having a short term workforce; when we talk about not having to have RIFs, we do so in the context of not having large numbers of disaffected employees on the street angry at us and the obvious threat to security that represents. And so the arguments go.

3. Next, from the very beginning I had DCI, DDCI, and EXDIR agreements that even though all of the reforms would hurt, there was only one real gut issue--the lengthening of retirement eligibility without penalty from age 55 to age 65. Certainly, we would work hard to avoid all the changes, but if the crunch comes we would give up on all but the age issue. At the time, this was also State's emphasis.

--I argued successfully then and could do so again that early retirement is one of the most important elements of our personal management system because so many positive, indeed vital, benefits accrue to the Agency when large numbers of our employees retire at ages much earlier than elsewhere in government: career opportunities we can offer recruits, the rewards of promotion and advancement to significant levels we can offer to promising officers; the substantial headroom that has traditionally been created at the mid to higher grades by a policy which encourages employees to retire as soon as they are eligible and a retirement system that allows them to do so; the avoidance of RIFs for employees who are blocking the paths of more productive officers; the attraction of serving a full career yet being able to retire at an age early enough to allow a second career.

--Our belief in this area is not a new one. I wrote a paper which showed that as early as the mid-1950's, the Agency was becoming deeply concerned about excessively long careers and the impact this could have on the management of employees and our mission fulfillment. In turn, the Agency began to develop a policy that encouraged early retirement. The effort led to what was then a dramatic and gutsy policy that required all employees to retire at age 60. (At the time we were all under the Civil Service Retirement System.)

--When the "mandatory" policy was first announced and for a few years thereafter, there was violent reaction by employees affected, and some even threatened to take us to court. The Agency, convinced that what it was doing was sound and best for the Agency, held firm and the policy finally took hold. In large measure, the policy succeeded because of an entirely new and innovative program, the pre-retirement counselling program. Aimed at preparing employees for the time of retirement, there was a dramatic change in the attitude of the employee population; not only

S E C R E T

did the resistance to the "mandatory policy," which required retirement generally at age 60, change but employees began to retire at even earlier ages. Even when we eliminated the policy in the mid-70's for Civil Service types (not because our view on the benefits of early retirement had changed but only as a price to pay for getting certain benefits for CIARDS), employees still retired early, and at ages far younger than elsewhere in government.

--This discussion on our old "mandatory" retirement policy is relevant only to make the point that for about 30 years of the Agency's 37 years of life, it has believed it crucial to its mission to have a policy that encouraged retirements at ages much earlier than elsewhere in government. One need only review the statistics, some of which are attached to my paper, to prove the point.

--One last point on the old policy. As part of the staff papers associated with that "mandatory" policy a Retirement Rationale was prepared. It sets forth the reasoning underlying this policy in the event we were ever taken to court. You should get this paper and read it because it is a strong statement and the substance is as valid today as it was then. In fact I used it to advantage in my preliminary discussions in 1983 with staff of our committees.

--From all of this you can see that while the Congress might not now accept as valid our concerns about retirement ages they cannot accuse us of emotionally creating the concerns merely because the reforms will hurt our people. History is on our side, and we should crank our thirty year track record into any oral or written presentations that are made.

Other comments, if I may:

25X1 1. Last week you mentioned certain views expressed by
Obviously, I have not seen his paper, but you mentioned three items:

--Uniqueness: I agree with Jim that pinning an argument for an exemption on the uniqueness of our employees will not wash. No matter how we feel about our employees and the rigors of Agency employment, it is only our view about our employees. Other agencies or departments could make the same case for their employees and you end up with a debate as to who is or is not unique; reasonable people can differ with us. Indeed, some people might even suggest that we are overworking our emphasis on the uniqueness of our employees. Moreover, you run the serious risk of having the Congress agree that our CIARDS people in fact are unique but that the others are not and we could end up with an exemption for only CIARDS type employees. As discussed above, this could be fatal.

--Where we can argue uniqueness forcefully is on our mission and here we can beat down most other efforts at comparison. Our enabling statute, our special authorities, our existing exemptions from other statutes make the case for us: Congress has already recognized that CIA's mission is unique, is crucial, is different from the rest of government. An exemption from the retirement reforms is merely another manifestation of Congress' acceptance of this fact.

--Portability: Being able to take your retirement system with you within government and between government and the private sector was cited as a positive feature of the 1983 social security reform. For us it is a disadvantage; more than that it represents a potentially serious security problem. See my paper, para. f, page 3 of the first attachment to my memorandum.

--CIA Funding: As I understood this, Jim wondered if it would be a selling point, in seeking an exemption from the retirement proposals and for a special supplemental system, for us to agree to absorb the costs involved without special appropriations. O/P is now costing out the idea, but unless I'm gravely mistaken, this is a bullet you'd better bite very carefully. You need only look at the actuarial projections of CIARDS, which Finance gets every five years, multiply them by 4 or five times, and in the long term, you may be talking about billions. Add to these costs the administrative costs of running another system. Now for the Civil Service types, by far the larger number of retirees and annuitants, the budgeting and funding problems belong to OPM.

2. Supplemental System:

--I know there has been a lot of staff work prepared on the form and substance of a supplemental system and perhaps for changes in existing retirement coverages. I haven't seen any papers but understand that a range of options has been discussed. Let me only suggest to you that this is not the time to be greedy. At a time when budget deficits are getting intense attention and at a time when employees and their organizations will be fighting for their lives to keep what they have it would be, in my judgement, unwise at best and arrogant at worst to try to get more. I understand there was some discussion about trying for a 2 1/2% formula for CIARDS and a straight 2% formula for Civil Service types. You might be able to pull this off. More likely,

you will get laughed out of the room and lose all credibility. These additional benefits carry a very heavy price tag and I don't see how the Congress could possibly consider any program that adds, not reduces, to the costs of retirement.

--In my own preparation and thinking on the form and substance of a supplemental system, and staying with the conviction that the existing systems and retirement ages best served the Agency, I got approval to develop a supplemental system that paralleled the existing Civil Service Retirement and CIARDS system, modified in such a way to dovetail with Social Security benefits. Just before I left Personnel in August 1983 I had meetings with [] and [] an actuary. Both are still being used by O/P. Both said that developing such a system was feasible. More importantly, [] was then working on a contract for the House Civil Service Committee and he had similar instructions from them. Develop a supplemental system that was equivalent to the current Civil Service benefits but modified in such a way as to also draw on Social Security benefits, when payable. The advantages are clear. The Agency could draw on all of the arguments for early retirement, discussed in detail above; as far as the affected employees are concerned they wouldn't be all that different from those on board prior to 1 January 1984. I still think this approach has merit, but perhaps the others being considered have more merit.

3. Timing:

--I strongly agree with you and Bob Magee that you have to convince everyone that there is no need to panic, no need to rush. Two years ago I was pressured into moving forward at a time when it was clear that nothing was going to happen and I told everyone that. Nothing did happen, and I think we are in much the same posture today as then. That is not to say we should sit still; obviously, we should do our homework, and for that matter start some kind of an effort with the Congress.

--If Bob's soundings from the Hill indicate that nothing will happen on the retirement reforms, we can then concentrate on the supplemental. At the same time, however, the formal Agency position on the retirement package can be worked on but more carefully and deliberately. If the soundings indicate that the Congress will be taking on both the supplemental and the retirement reforms, then obviously we have to prepare for both and our work will be cut out for us. My own view is that the Administration will not be able

to sell its entire retirement package, but that the Congress will find some of the proposals attractive, e.g., change from high 3 to high 5, additional costs to employees, and perhaps the sick leave proposals. In some ways it may be harder to prepare to fight incremental changes than it would the entire package.

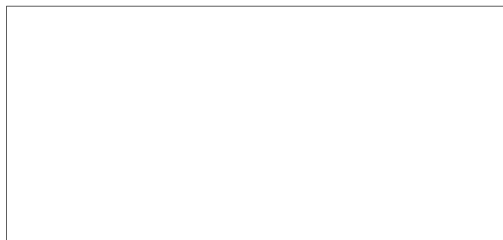
--We are not without support for relief from the retirement proposals and for a supplemental retirement package suited to our needs. Specific commitments were made to me by staff members of both Committees. In fact, at my request, Ed Levine, then the aide to Sen Durenburger got the Senator to put a strong statement of support in the Congressional Record; similarly, Mike O'Neil got Chairman Boland to send the DCI a strong letter of support and understanding. Once we prepare the scenario, the plan you and Magee were talking about, I suggest you start with those two expressions of support in initiating the Agency's legislative effort on the retirement reforms, the supplemental system, or both.

1. Lastly, you need to get everyone out of this business except those charged with the responsibility, the point Bob made last week. We need a single Agency position--the best and strongest that can be developed--and it serves no purpose, indeed it can be dangerous, to have all kinds of people flailing away and expressing uninformed views to Congress and elsewhere. Things are going to be rough enough for you and Magee as it is.

5. I hope these comments are helpful. I have offered them only for that purpose.

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Attachment:
As Stated



FILE:

20-15

83-0601/1

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Executive Registry

83-09374

FROM:

Charles A. Briggs
Executive Director

EXTENSION

NO.

DATE

23 FEB 1983

TO: (Officer designation, room number, and building)

DATE

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OFFICER'S
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)


1. Deputy Director for
Administration

21 APR 1983

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In the interest of keeping you informed of our study on the impact that proposed retirement changes will have on the Agency and its employees, I am sending you a copy of the paper that has been submitted to the DD and the DCI.

We are not yet free to publicize the recommendations being made to the DCI, nor can we publicize any action that he ends up taking until the effort is concluded. For these reasons, I ask that you handle this on a tight basis, advising your Directorate personnel only that management is well aware of the problem and will do everything possible to protect Agency equities. We will, of course, keep you informed as we go along. At the appropriate time we will also report to our employees.


Charles A. Briggs

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16 FEB 1983

MEMORANDUM FOR: Director of Central Intelligence

THROUGH: Deputy Director of Central Intelligence
Executive DirectorFROM: 
Acting Director of Personnel

SUBJECT: Study of Proposed Retirement Changes

1. Action Requested: That after reviewing the attachments you approve the recommendations in paragraph three of this memorandum.

2. Background:

a. We have previously informed you of two retirement reform efforts underway which we believe pose a potentially serious threat, both currently and prospectively, to the Agency's ability to fulfill its mission. As we noted earlier, the retirement proposals impact on approximately 80 percent of Agency personnel covered by the Civil Service Retirement Act (CSRA); approximately 20 percent are in the Agency special retirement system, the CIA Retirement and Disability System (CIARDS).

b. At Attachment 1 is a brief statement of the impact of Social Security reform and federal retirement proposals on the CIA. At Attachment 2 is a more detailed review of the serious issues created by these reform efforts for the Agency.

c. Legislation is already under consideration by the Congress on the Social Security reform so that there is some urgency attached to our recommendation on this item. The Office of Management and Budget is in the process of drafting the changes to the Civil Service Retirement Act. Thus, it is important that an expression of concern by the Director to the President be made now.

3. Recommendations: Because of the several concerns discussed in the attachments, we strongly urge that the Director take the action recommended below. It is recommended that:

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S E C R E T

a. The DCI obtain the President's approval and commitment for an Administration initiative aimed at securing outright exemption for CIA from the Social Security Reform Act and preservation of CIARDS.

b. The DCI report to the President that the proposed age and penalty changes to the Civil Service Retirement Act present serious management concerns.

c. Because of these concerns, that the DCI request the President to instruct OMB to exempt CIA from the proposed age and penalty amendments.

d. The DCI request the President to instruct the Director, Office of Management and Budget to take no action to amend CIARDS.

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Attachments

CONCUR:

Executive Director

Date

Deputy Director of Central Intelligence

Date

APPROVED:

Director of Central Intelligence

Date

Distribution:

Orig. - Return to AD/Pers

1 - ER

1 - OGC

1 - Comptroller

1 - C/HB/LLD

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1 - DD/OP/SP

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AD/Pers: 16 Feb. 83

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IMPACT OF SOCIAL SECURITY REFORM/
FEDERAL RETIREMENT PROPOSALS ON THE
CENTRAL INTELLIGENCE AGENCY

Social Security Reform

The report of the National Commission on Social Security Reform which will form the basis for Congressional action early in the 98th Congress recommends that Social Security coverage be extended on a mandatory basis as of 1 January 1984 to all newly hired civilian employees of the federal government. The implication of this provision is that the Civil Service Retirement System and special federal retirement systems such as the CIA Retirement and Disability System will continue to exist only for individuals who entered government service prior to 1 January 1984. In time, and when the last beneficiary of these retirement systems dies, these systems will disappear.

Changes to the Civil Service Retirement Act

The President's fiscal year 1984 budget recommends a number of changes in federal employee retirement and disability programs. Probably the most significant of these would raise the retirement age for an annuity without reduction from age 55 to age 65 phased in over a period of ten years. Retirements would be permitted at earlier ages but employees who so retire would have their annuities reduced by five percent for each year they are under the prescribed age at the time of retirement; e.g., age 56 in 1984, age 57 in 1985, and so on. In ten years the age would be 65. Employees who are age 55 at the time of enactment will not be affected. The Office of Management and Budget already has indicated that the Administration will seek to raise the CIARDS retirement age from 50 to 60 with the same five percent per year penalty for early retirement. The overall thrust of all of the retirement changes is that employees will have to pay more for less attractive annuities and will have to work longer in order to qualify for retirement without reduction.

Comment

The impact of the Social Security reform/federal retirement proposals will be particularly heavy and adverse for the Central Intelligence Agency.

S E C R E T

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a. There are currently [] employees eligible for voluntary retirement under the CSRA; of these, [] hold an SIS rank from 1 through 6. [] CIARDS participants are immediately eligible for retirement; of these, [] hold the rank of SIS-1 through 6. While it is not likely, because of grandfather clauses protecting their current entitlements, that this large number of employees will opt for retirement now, there is the risk that because of general distrust of the legislative process some may choose to leave now. The result could be a disastrous loss of experienced personnel, many of whom are in key positions.

b. We believe that an even more critical loss to this Nation and the Agency would be in our extraordinarily competent and highly motivated mid-career personnel in the 35 to 50 range. Certainly, a significant part of their commitment to a career with the Agency is retirement/benefits package that the Government offers. We believe that it is this group that is hardest hit by these proposals because they realize that they will have to revise their future plans, taking into account that there will be no substitution for the severe reduction in retirement benefits that they will be required to accept by the changes. The particular problem here is that in this group of employees there is a great deal of difficulty in moving into a new career or employment position outside of the Agency except for the most competent and highly gifted individuals. It is the cream of our career staff that we will be likely to lose, a group that will be extremely difficult to replace. The devastating impact of this happening will be reflected in the long term because we will not have successors to replace the current leadership and it will take many years to replace the mid-level career group.

c. In its recruitment of the brightest young men and women to help fulfill the CIA mission, the Agency has had much to offer:

1. We promise a meaningful career in an area of vital concern to our Nation's welfare, a career which exposes them to the most sensitive of information and which allows them to make a significant contribution to the Agency's mission;

2. We assure them of continuing advancement to positions of increasing responsibility if their performance warrants it;

3. We provide the opportunity to serve a full career while permitting them, at the same time, full retirement at an age that leaves productive years to pursue other interests, such as employment in the private sector, academia or otherwise.

d. The proposed changes would force us to offer employees and those we need to recruit considerably less.

e. The proposals would change the career nature of Agency employment by dramatically lengthening the service of current Agency employees and prospective hires. The lengthening of service of Agency employees by as much as ten years would also have a devastating impact on promotions and could require the Agency to conduct reductions in force in order to permit the promotion of deserving younger officers.

f. If the CIA is to carry out its extremely important mission, and particularly if it is to assure the utmost security of our Nation's most important secrets, it cannot afford to be a short-term (3-5 years) training facility for its work force. There are a number of agencies in government which strive for a short-term work force. The U.S. Attorney's Office and the Department of Justice, as well as regulatory agencies like the FTC and the SEC, are good examples. Because of the private sector demand for people with these experiences, individuals use these agencies as a training ground. However, because of the sensitive intelligence which Agency employees come into contact with, the Agency cannot afford to have a population of short-term employees. The need for a highly motivated, extraordinarily capable career cadre able to serve a full career, i.e., 20-30 years, is an absolute necessity. It can only be achieved and maintained by providing the necessary competitive remuneration along with a retirement program similar to the one that now exists, allowing our essential careerists to commit their careers to the defense of this Nation while at the same time allowing those careerists to provide adequately for their future. ✓

g. The proposals and objectives of OMB would cripple CIARDS for current employees and eliminate it for prospective new hires. In 1964 Congress enacted CIARDS to recognize that CIA's operational cadre, because of the special nature of their service, deserved retirement benefits significantly different from other employees. OMB plans to insert an annuity penalty reduction for early retirement which does not now exist. Such a change, as well as lengthening the age of CIARDS participants before they could retire without an annuity reduction, could destroy CIARDS as an important management tool. CIARDS has allowed the Agency to require or to permit early retirement with no penalty reduction to members of this operational cadre who can no longer serve under the strenuous and hardship circumstances required; such early retirements have provided managers promotion headroom for deserving younger officers.

h. Because of these serious concerns, we strongly urge that the Director take positive and aggressive action as recommended below.

Action Believed Necessary

For the reasons discussed above, we have recommended that the Director obtain the President's approval for an attempt to exempt CIA from the Social Security Reform Act proposals, obtain the President's approval to exempt CIA from the age and penalty changes proposed for the Civil Service Retirement Act, and request the President to instruct OMB to take no action to amend CIARDS.

RETIREMENT PROPOSALS

I INTRODUCTION

This paper identifies serious issues for the CIA created by current efforts to revise existing retirement coverages and benefits. They could impact on all Agency employees, both in the Civil Service Retirement Act and in the CIA Retirement and Disability System, and could result in a mass exodus of Agency employees in both Systems currently eligible for retirement and seriously damage the aspirations of others not eligible. Further, the changes could radically alter the career nature of employment with CIA whereby we offer to the best we can hire an opportunity to embark on a meaningful career, with reward of continuing advancement to those who deserve it, and with the prospect for retirement at a reasonably young age for those interested in pursuing a second career later in life. The result could be a frightening loss of mid-level and younger personnel in hard-to-get categories whom the Agency struggled to find, hire, and develop as well as an inability to recruit new personnel in these same categories. Moreover, the proposals could impact on the Agency's management of its personnel as in the case of the Agency's special retirement system, CIARDS, which allows retirement as early as age 50 for those enduring special hardships associated with operational service overseas and could render CIARDS useless as a management tool for the operational cadre. The paper identifies and discusses these concerns and recommends that the Director take positive action to prevent the application of the proposed changes to the CIA.

II BACKGROUND

25X1 A. There are two significant retirement reform efforts underway which employees, including some who are now eligible for retirement, see as potentially threatening: 1. Comprehensive changes in the Civil Service Retirement Act; 2. Social Security coverage for new federal employees. Although the reforms are separate efforts, they are related. Legislation to implement the Retirement Act changes is being drafted by the Office of Management and Budget, but Congressional review is not expected before spring at the earliest. Legislation to implement Social Security reform is already being considered by the Congress; thus, an Agency position on this legislation probably will be required in advance of the time the Civil Service Retirement proposals receive Congressional action.

B. Approximately 80% of Agency personnel are covered by the Civil Service Retirement Act (CSRA). 20% are participants in the CIA Retirement and Disability System (CIARDS), which provides higher benefits for employees

S E C R E T

C. Since an understanding of the Social Security proposal impact depends on some familiarity with our present Civil Service and CIARDS systems, these are addressed first.

III PROPOSED AMENDMENTS TO THE CIVIL SERVICE RETIREMENT ACT

A. The President's budget message proposed the following major changes to the Civil Service Retirement Act:

1. Under existing law, employees who are at least age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with 5 years of service may retire voluntarily with no reduction in benefits. Involuntary retirement benefits are available to employees who are at least age 50 with 20 years of service or who have 25 years of service regardless of age; such employees have their annuities reduced by 2% for each year they are under age 55.

The retirement age for an annuity without reduction would be raised from age 55 to age 65, phased in over a period of 10 years. Retirements would be permitted at earlier ages but employees who so retire would have their annuities reduced by 5% for each year they are under the prescribed age at the time of retirement, e.g., age 56 in 1984, age 57 in 1985, and so on. In ten years the age would be 65. The reduction would not apply to persons retiring because of disability. Please note: employees 55 or over at enactment would not be affected.

2. Employees currently pay 7% of their base salary for retirement coverage.

The employee's contribution would be increased to 9% in 1984 and 11% in 1985.

3. Currently, annuity calculations are based on the employee's highest three years of salary, referred to as the "High-three."

This would change to the highest five years of salary. Please note: employees within 3 years of retirement eligibility would not be affected.

4. It is also proposed to eliminate the retiree cost-of-living adjustment for 1984, and for 1985 and thereafter to make permanent current legislation that allows only one-half cost-of-living adjustments for non-disability retirees under age 62.

5. Currently, the formula used to determine the percentage of salary that is replaced by retirement benefits is 1 1/2% of an employee's "high 3" years of salary for the first 5 years, 1 3/4% for the next 5 years and 2% for each year over 10. An employee who retires after 30 years of service would receive 56.25% of his/her "high three." The Budget suggests the possibility that this level could be lowered significantly but the specific manner in which the reduction is to occur and the timing involved

B. Discussion

1. None of the changes are without concern to employees: they will have to pay more for less attractive annuities and will have to work longer in order to qualify for retirement without reduction. Of all the changes, the most serious to management and employees are those which raise the retirement age for an annuity without reduction to 65 and impose an annuity reduction for early retirement. These changes need particular attention.

25X1 2. Since the specific details of the proposal identified in paragraph III A 5 above are not yet known, we are unable at this time to assess accurately its impact on those Agency employees covered by the CSRA who are currently eligible to retire; they total [] Except for that uncertainty, employees in the Civil Service Retirement System age 55 and above are protected from the age 65 proposal and the 5% penalty reduction for earlier retirement; employees in the Civil Service Retirement System who are within 3 years of retirement eligibility are protected from the change from a "high 3" to a "high 5" basis for calculation. They total [] but there is some overlap with the previous category. These two "grandfather" clauses should ease the concern or minimize the possibility that the large number of Agency employees now eligible for CSRA retirement will in fact opt for retirement since their entitlements, except for increased contributions, would not be immediately affected.

25X1 3. On the other hand, employees who are not protected from the age 65, 5% penalty, and change to "high 5" proposals are immediately affected. For them, especially those who just miss out, e.g., age 54, the retirement changes--if enacted as proposed--could be demoralizing.

a. In 1982 the average of Agency employees retiring under CSRA was 56.9. (See Tab A for prior years.) Elsewhere it was 61. Thus, our CSRA employees retire well in advance of the average of retirements elsewhere in Government. Many of our employees retire early to pursue a second career in industry or in academia which adds additional income to a retirement annuity. Our fear is that many of our very sharp personnel, especially mid-level or younger analysts or certain high-tech employees, might decide to resign now rather than have to wait for age 65.

b. Lengthening the service of Agency employees by as much as 10 years, or for that matter even 5 years, over the current age 55 could have a devastating long-term impact on the promotion and assignment aspirations of our bright young men and women and would impair the ability of Agency management to move promising officers up through the ranks. (See Tab B, which shows grade levels of retirees and promotion capability created by such retirements.) The officers themselves will quickly perceive that their advancement is seriously curtailed, blocked by senior officers who must work

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headroom would be to conduct periodic reductions in force. These have occurred rarely in the CIA; when they did the result was seriously reduced morale and many cases of disaffected employees who were let go. The current situation would be worse because under the proposal, separated employees would also suffer significant reductions in annuities.

c. For the same reasons described above, we believe that our ability to recruit new and essential personnel could be seriously impaired, particularly since today's applicants appear to be more materialistically oriented than our earlier employees.

d. Thus, while all of the retirement proposals will have some impact on employees, those concerning retirement age and penalty reductions in annuities for early retirements should receive priority focus since those directly impact on the Agency's management of its personnel.

e. OMB is drafting the necessary legislation to implement the Budget proposals. The initial soundings from the Congress are that there is little enthusiasm for these retirement changes in their present form although some downward revision of current benefits and some change in retirement eligibility can be anticipated. Our understanding is that Congressional consideration will not occur until late spring, at the earliest. Nonetheless, we believe that there should be some DCI expression of concern to the President now, so that the legislation the Administration submits to implement the Budget proposals can be tailored to our special requirements.

C. Impact of Amendments to the Civil Service Retirement Act on the CIA Retirement and Disability System

1. The Central Intelligence Agency Retirement Act of 1964 (CIARDS) was designed to assist the Agency in improving its personnel management program by authorizing the establishment of a retirement system that included early retirement provisions. In authorizing this system, the Congress attached special importance to the demanding nature of CIA positions, and also recognized the special character of overseas intelligence work. CIA does indeed have a crucial ongoing need to attract and retain a force of highly motivated careerists who are capable of being trained in unique skills. The demands of our overseas intelligence work generally require that these individuals be younger than what usually is called for in Government service. These demands include unique duties performed under difficult and sometimes dangerous conditions. The stresses and strains of uneven and uncertain hours of work, of duty in unhealthy locations, and of arduous assignments require personnel who possess a high degree of vigor, vitality, and endurance. An operational cadre with such physical and emotional characteristics is absolutely essential to the mission of the Agency. It has been demonstrated, for example, that younger officers as a group are better at recruiting agents than are older officers. Experience has taught us that the nature of certain unique types of work in CIA requires a combination of mental, physical, and psychological characteristics which are predominantly associated with the younger band of the age spectrum and have been built in as a basic and vital feature of this Agency's operational cadre management system.

2. CIARDS participants can retire at age 50 with 20 years of federal service, which includes 10 years of Agency service, and of which 5 years must be qualifying service, e.g., overseas. A CIARDS participant may be involuntarily retired with 25 years of service regardless of age; in this case there is no penalty, i.e., no reduction in annuity, for retirement below age 50. Annuities are calculated at a flat 2% of "high 3" for each year of service, or compared with the CSRA formula noted in paragraph III A 5, page 2, above.

3. The retirement proposals discussed in paragraph III, page 2 above relate directly to the Civil Service Retirement Act but OMB has informed a representative of our Office of General Counsel that it will propose changes in CIARDS bearing some direct proportion to the changes in the Civil Service Retirement Act. For example, if the retirement age without reduction for those covered by the Civil Service Retirement Act is raised to age 65 from the current age 55, OMB will expect CIARDS retirement age to rise by 10 years to age 60 from the current age 50. Furthermore, OMB has stated that it would strive to obtain reductions in annuities for each year the individual is under the voluntary retirement age along the same lines it has proposed for the Civil Service Retirement age. Since there is no provision in CIARDS for a reduction in annuity for any kind of retirement, voluntary or involuntary, and regardless of the age at retirement, this would be a major revision to CIARDS and would remove the most important feature of our System; it could render CIARDS useless as a management tool for reasons discussed in paragraph 1 above. The increase in retirement contributions, the change from a "high 3" to a "high 5" basis for calculating annuities, the ultimate reduction in total annuity, and the cost-of-living changes will be applied as well to CIARDS.

4. The average age of CIARDS retirements in FY 82 was 52.8. (See Tab A for prior years.) The early retirement features (lower age with no penalty) of CIARDS as well as the higher annuity (flat 2%) benefits payable have been an important, indeed essential, incentive for employees to serve overseas. Since, as noted above, in enacting CIARDS Congress recognized that service performed by the Agency's operational cadre is special enough to warrant retirement benefits significantly different from employees covered by the Civil Service Retirement Act, we believe that every effort must be made to preserve CIARDS as it is.

5. In paragraph III B 2 above, page 3, we noted that employees age 55 and those within 3 years of retirement eligibility would be "grandfathered" from the age, penalty, and "high 5" proposed changes in the Civil Service Retirement Act. Similar grandfather clauses should be obtained for CIARDS as is proposed for CSRA, else we can anticipate that most, if not all, current CIARDS participants eligible for retirement to opt for retirement. There are [] CIARDS participants eligible for voluntary retirement. Of those [] are age 55 and above; [] are age 50-54, and this is the group that needs to be "grandfathered."

D. Recommendations

1. That the DCI report to the President that the proposed age and penalty changes to the Civil Service Retirement Act present serious management concerns.

2. Because of these concerns, that the DCI request the President to instruct OMB to exempt CIA from the proposed age and penalty amendments and

3. That the DCI request the President to instruct the D/OMB to take no action to amend CIARDS.

IV SOCIAL SECURITY REFORM

A. The second effort underway is a comprehensive amendment of the Social Security System to implement the consensus recommendation of the National Commission on Social Security Reform. Legislation has already been submitted and hearings are underway. We understand that the House plans to complete its work on the Bill by the Easter recess.

1. The concern to the Agency is a provision to bring all new hires to the federal work force after 1 January 1984 under the provision of the Social Security Act, as it will be amended, and not under the CSRA as is now the case. In addition, the National Commission on Social Security Reform has suggested an accompanying program referred to as a supplemental retirement plan for these new hires. Specific details of this supplemental plan are not available now but we have learned that the Office of Personnel Management is working on such a plan. We have recommended below a course of action to resolve our concerns on this proposal. Failing this, our hope is that we can use the Director's authority to develop a supplemental plan covering both categories of Agency employees, i.e., CSRA and CIARDS, and to do so in such a way as to distinguish the benefits.

2. The concerns expressed above with respect to a retirement age of 65 and penalty of earlier retirement apply equally under this proposal since no new hires after 1 January 1984 would be eligible for Social Security benefits until age 65, or with reduced benefits at age 62.

3. Although both the existing CSRA coverage and CIARDS coverage are of concern, the more pressing concern is that CIARDS, the Agency's preferred retirement system for selected personnel, would gradually disappear, as participants who entered CIA prior to 1 January 1984, or their survivors, die. Social Security coverage and the as yet undefined supplemental plan are intended to replace all currently existing federal retirement systems, including the preferred systems, for employees entering the federal work force subsequent to 1 January 1984.

4. We believe that a strong effort should be made for recognition of CIA's management concerns that flow from any change in existing retirement benefits and eligibility, especially age, and to preserve the distinction, in whatever form, between CIA's overseas cadre and other Agency and Federal employees. To achieve these objectives, there is a range of possible options:

a. An outright exemption from the provisions of the Social Security Reform Act for CIA employees, allowing us to maintain the same coverage we now have, i.e., both Civil Service type retirement for approximately 80% of our people and CIARDS for the remainder.

b. An alternative to the explicit exemption for CIA personnel would be enactment of a provision that would give the President the right to exempt classes of employees or Agencies in the National Defense and Foreign Affairs area. This option would not only protect the interests of the CIA but also those of others in the Intelligence Community who may be similarly concerned about the impact on their personnel. At the present time, the Foreign Service Retirement System provides benefits approximately the same as CIARDS. FBI, law enforcement personnel, and air traffic controllers receive preferred retirement benefits under the provisions of the CSRA. These and other groups might be included in any designation by the President. (This is easier politically but we are speaking of the preservation of Agency uniqueness and address in this paper the Director, CIA, not the Community DCI.)

c. Another option would be to amend the CIA Retirement and Disability System in such a way as to cover all Agency employees but with two forms of coverage: CSRA and CIARDS. We would have one system, CIARDS, but two sets of benefits equivalent to CSRA and CIARDS. This would permit the Agency to provide CIARDS-type coverage to employees who qualify without concerns of funding, Social Security credit implications, etc. (This, to a considerable extent, is what many outsiders think the CIA Retirement System is now.)

d. Failing any success in exempting CIA personnel from the Social Security Reform provision, we will have to try to ensure that the "supplemental retirement plan" referred to above provides the necessary distinction for the Agency's operational cadre; by this, we mean the development of two supplemental systems for the Agency with the higher benefit accruing to those normally eligible for CIARDS benefits.

B. The Social Security reforms are now being considered by the Congress. We believe, therefore, that of the two reform efforts underway this is the one that needs the Director's immediate attention. We understand that State has also undertaken a study of the implications of the Social Security Reform Act on its Foreign Service Retirement System.

C. Recommendation

That the DCI obtain the President's approval and commitment for an Administration initiative aimed at securing outright exemption for CIA from the Social Security Reform Act and preservation of CIARDS in its present form.

Average Age of Retirees

<u>Year¹</u>	<u>CIARDS</u>	<u>Civil Service</u>	<u>Combined</u>
1967	55.1	57.1	57.0
1968	54.3	56.6	56.5
1969	54.4	57.3	55.9
1970	54.9	56.7	56.3
1971	53.2	56.5	55.1
1972	52.7	55.9	54.6
1973	53.3	55.3	54.3
1974	51.7	54.5	53.3
1975	51.8	54.3	52.8
1976	51.0	53.9	52.2
1977	52.0	55.0	53.2
1978	51.4	54.6	52.6
7/1/78 - 9/30/78	52.8	54.8	53.7
1979	52.3	54.7	53.4
1980	53.1	57.1	54.8
1981	53.3	57.5	55.3
1982	52.8	56.9	54.7

1. Year ending 30 June through 1978, 30 September thereafter.

S-E-C-R-E-T

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